

**CITY OF KALAMAZOO,
MICHIGAN**

SINGLE AUDIT

For the Year Ended December 31, 2007



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN
Single Audit

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For the Year Ended December 31, 2007

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CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Commerce				
Direct program:				
Davis Creek Business Park	11.300	06-01-04974	\$ 726,350	<u>\$ 416,844</u>
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grant:				
Program year 2001/02	14.218	B-01-MC-26-0022	2,410,000	50
Program year 2002/03	14.218	B-02-MC-26-0022	2,396,000	15,912
Program year 2003/04	14.218	B-03-MC-26-0022	2,168,000	7,913
Program year 2004/05	14.218	B-04-MC-26-0022	2,166,000	10,874
Program year 2005/06	14.218	B-05-MC-26-0022	2,056,687	35,552
Program year 2006/07	14.218	B-07-MC-26-0022	1,872,055	1,067,043
Program year 2007/08	14.218	B-06-MC-26-0022	1,888,768	819,272
Total Community Development Block Grant				<u>1,956,616</u>
Home Investment Partnerships Program	14.239	M-03-MC-26-0207	3,954,217	<u>263,132</u>
Total U.S. Department of Housing and Urban Development				<u>2,219,748</u>
U.S. Department of Justice				
Direct programs:				
Bulletproof Vest Program:				
Program year 2006	16.607	-n/a-	6,555	437
Program year 2007	16.607	-n/a-	5,463	6,555
Total Bulletproof Vest Program				<u>6,992</u>
Project Safe Neighborhood:				
Program year 2006	16.609	2006-GP-CX-0063	29,000	35,078
Program year 2007	16.609	2006-PG-BX-0005	55,000	50,206
Total Project Safe Neighborhood				<u>85,284</u>
Public Safety Partnership and Community Policing Grants	16.710	2007CKWX0251	63,928	<u>6,511</u>
Justice Administration Grant:				
Program year 2006	16.738	2006-DJ-BX-0532	72,406	21,392
Program year 2007	16.738	2007-DJ-BX-0822	91,970	45,923
Total Justice Administration Grant				<u>67,315</u>
Total U.S. Department of Justice				<u>166,102</u>

Continued ...

CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended December 31, 2007

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Transportation				
Direct programs:				
Federal Transit Administration:				
Capital, Planning, and Operating Assistance:				
Capital 2003	20.507	MI-90-X404	\$ 858,655	\$ 10,518
Capital 2004	20.507	MI-90-X431	503,325	15,016
Capital 2005	20.507	MI-90-X455	1,632,732	202,642
Capital 2006	20.507	MI-03-0216	2,993,076	(1,124,499)
Capital 2007	20.507	MI-90-0495	-n/a-	157,869
Capital 2007	20.507	MI-04-0014	-n/a-	161,518
Capital 2007	20.507	MI-90-X520	-n/a-	20,800
Operating	20.507	MI-90-4520	1,239,132	1,977,067
Total Capital, Planning, and Operating Assistance				<u>1,420,931</u>
Passed-through the Michigan Department of Transportation:				
Nonurbanized Area Formula Grant:				
Section 5311 - 2007	20.509	G07-0259/3	-n/a-	233,748
Section 5311 - 2008	20.509	G07-0239/7	-n/a-	122,799
Total Section 5311				<u>356,547</u>
Job Access Reverse Commute	20.516	G07-0239/2	25,000	<u>25,000</u>
Total U.S. Department of Transportation				<u>1,802,478</u>
Environmental Protection Agency				
Direct program:				
National Brownfield Pilot - Redevelopment Initiative - Assistance Amendment	66.807	V985392-01-1	100,000	16,240
Passed-through the Michigan Department of Environmental Quality:				
Wellhead Protection Grant	66.468	-n/a-	70,000	<u>19,644</u>
Total Environmental Protection Agency				<u>35,884</u>
U.S. Department of Homeland Security				
Direct program:				
Assistance to Firefighters	97.044	EMW-2005-FP-01410	339,000	<u>323,665</u>
Total Expenditures of Federal Awards				<u>\$ 4,964,721</u>

CITY OF KALAMAZOO, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Kalamazoo, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Kalamazoo reporting entity is defined in Note I of the City's basic financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Kalamazoo reporting entity. Of the federal expenditures presented in the schedule, the City of Kalamazoo provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 1,012,846
Home Investment Partnership Program	14.239	<u>263,132</u>
Total		<u>\$ 1,275,978</u>

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 30, 2008

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan* (the "City"), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 12.1% and 3.4% of the assets and 29.4% and 5.2% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Kalamazoo Golf Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Kalamazoo, Michigan, in a separate letter dated September 30, 2008.

The City of Kalamazoo, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman".



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

September 30, 2008

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

Compliance

We have audited the compliance of the *City of Kalamazoo, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal controls that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represents 12.1% and 3.4% of the assets and 29.3% and 7.3% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes no

Significant deficiencies identified
not considered to be material weaknesses?

 yes X none reported

Noncompliance material to financial statements
noted?

 yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

 X yes no

Significant deficiencies identified
not considered to be material weaknesses?

 yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

 yes X no

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.300	Davis Creek Business Park (EDA)
14.218	CDBG
14.239	HOME Investment Partnership
20.509	Nonurbanized Area Formula Grant
97.044	Assistance to Firefighters

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Material Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments affected federal and state revenues, receivables, payables and unearned revenue.

Cause: This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.

Effect: As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)

2007-1 Material Audit Adjustments (Continued)

Recommendation We recommend that the City reconcile all general ledgers to subsidiary detail on a periodic basis in order to have more accurate financial reporting throughout the year.

View of Responsible

Officials: Management has identified reconciling and closing procedures that require improvement. We have modified staffing responsibilities to focus on these areas for improvement. In addition, we are modifying our internal control procedures to enhance our reconciliation and closing procedures to reasonably ensure our financial statements are free from material misstatement.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2007-2 Preparation of Schedule of Expenditures of Federal Awards

Criteria: As required by OMB Circular A-133, §____.300, the City is responsible to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received, including the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. Furthermore, the City is responsible to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with §____.310.

Condition: In connection with our audit, we requested that the City provide a preliminary Schedule of Expenditures of Federal Awards (SEFA). The document provided by management did not include the Nonurbanized Area Formula Grant and Job Access and Reverse Commute grant.

Effect: The City did not initially identify \$381,547 of federal expenditures that should have been reported on its Schedule of Expenditures of Federal Awards.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2007-2 Preparation of Schedule of Expenditures of Federal Awards (Continued)

Cause: This condition appears to be the result of the City not initially recognizing the federal source of funding passed through other government agencies.

Recommendation: We recommend that the City carefully review all of its grant agreements to any federal funding received directly or passed through other governments and agencies.

View of Responsible

Officials: Management has identified the cause for the failure reporting of Nonurbanized Area Formula Grant and Job Access and Reverse Commute grant dollars in the Schedule of Expenditures of Federal Awards (SEFA). We have upgraded our internal procedures to ensure that all Federal Awards are recorded and reported in accordance with applicable guidelines.

SECTION IV – PRIOR YEAR FINDINGS

No prior year findings.

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REHMANN ROBSON

Certified Public Accountants

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June 30, 2008

To the City Commission of the
City of Kalamazoo
City of Kalamazoo

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Kalamazoo* (the "City") for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated March 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those

requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 6, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Other Post Employment Benefits in Note IV.E to the financial statements is a new disclosure required by GASB Statement 43, “*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.”

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. However there were material misstatements detected as a result of audit procedures which were corrected by management, and have been described in the schedule of findings and questioned costs in the single audit report.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 30, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *City of Kalamazoo* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

City of Kalamazoo, Michigan

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the City of Kalamazoo as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

Other Matters

Reconciliation of Significant Account Balances

During our review of the internal controls during our risk assessment process, we noted that in several instances, the City prepared reconciliations for significant account balances, but did not properly document who prepared and reviewed the reconciliations. We recommend that the City implement procedures to ensure that an appropriate individual review all significant account reconciliations and that both the preparer and the reviewer document the date that the reconciliation was prepared and reviewed.

City of Kalamazoo, Michigan

Comments and Recommendations

For the Year Ended December 31, 2007

Accounting for Death Benefits Payable

The City currently records death benefits payable as a liability in the Insurance and Benefits Internal Service Fund. This liability is calculated for eligible retirees using the present value of future benefits paid. Under GASB Statement 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", the City will need to have an actuarial study performed to determine an unfunded actuarial liability for expected future benefits to be paid for current and future retirees. This study will also determine the required contribution for the plan, which will be the basis for recording future expenses for the plan.

Implementation of GASB 45

In the current Comprehensive Annual Financial Report, a disclosure was made at note IV.D for the Actuarial Accrued Liability (AAL) in compliance with GASB Statement 43, "*Financial Reporting for Postemployment Benefits Other Than Pension Plans*." In fiscal year 2008, the City will be required by GASB Statement 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" to make a choice on what to do with this liability. Either the liability can be "funded", where the Annual Required Contribution (ARC) less payments for current benefits would need to be contributed to an irrevocable trust; or the City can continue on a pay-as-you-go basis, and book the difference between the current benefit payments and the ARC as a liability in the governmental activities and proprietary fund statements.

Subrecipient Monitoring

During our review of subrecipient monitoring compliance during the Single Audit, we noted that the City had not obtained recent audit reports for two of its subrecipients. We recommend that the City implement procedures to ensure that an appropriate individual obtain and review audit reports for all subrecipients on an annual basis.

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